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"Greenshoots" there, if you look carefully

The period since the Global Financial Crisis has been an unusual one for business banking. The dilemma for the banks has been to find growth in a market with sluggish demand, particularly from the lower end of the market, as a major wave of deleveraging swept over the economy.

Banks tried re-pricing loans, and that worked for a while, and now they seem to have focussed on non-interest rate related fee income as a way of shoring up their margins. But with close to nine out of ten Australian businesses now copping fees on their loans, that source is showing signs of saturation as well.

So just when banks seem to have run out of room to move further – unless it is to hike fees even more – some "green shoots" are in evidence which are not only good for the banks, but also the wider economy.

As part of its regular research sweep East & Partners regularly asks businesses of all sizes about their borrowing intentions over the next six months. Since April 2008 the percentage of businesses across all market segments indicating borrowing intentions has always been under 6 percent of all businesses.

Back in the doldrums of April 2008, for example, only 1.1 percent of institutional businesses – or those with $530 million or more in annual turnover – indicated they planned to borrow in the next six months. These organisations, of course, have access to capital markets funding but even so, that was an astonishingly low figure.

Research conducted by East in January 2013 shows that this forward borrowings figure has moved over 6 percent for the first time in almost five years. Across Micro, SME, Corporate and Institutional businesses, a market average of 6.3 percent now say they intend to borrow funds.

The highest rate of intention, significantly, is among the Micro ($1-5 million annual turnover) and SME ($5-20 million) segments, with 7.8 percent of businesses indicating borrowing intentions. This is particularly significant because another East research program, our Deposit Funding Debt Index, has continually shown that this segment has continued to deleverage well beyond the point at which corporate and institutions completed that process.

After Micro/SME on 7.8 percent, next is the corporate segment ($20-530 million) with 7.0 percent intending to borrow, and then institutional at 5.0 percent, the lowest of the segments but still a long way ahead of the 1.1 percent recorded in April 2008.

East's reading of this data is that we may be at an inflection point in the business borrowing cycle. This is no "hockey stick" rebound as lending roars back, but rather the gentle emergence of some much needed "green shoots" for business banking and the economy.

It will be interesting to go back to the market to validate these figures in six months, learn of intentions over the next six months, and see if the intentions have a real impact on business lending.

Forward Borrowing Intentions – All Lenders

	% of Businesses Looking to New Borrowings in Next 6 Months			
	SME & Micro	Corporate	Institutional	Total
1 April 2008	10.2	8.0	1.1	5.6
1 April 2009	9.5	8.6	2.0	5.3
1 April 2010	6.3	6.7	5.2	5.4
1 April 2011	6.3	6.9	5.5	5.9
1 April 2012	7.8	6.5	4.2	5.4
1 January 2013	7.8	7.0	5.0	6.3

Source: East & Partners Open Market Briefing